California Business Roundtable

Little Hoover Commission Comments
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Thank you for the opportunity to be here today and share my thoughts about the energy issues and challenges facing our state. My name is Rob Lapsley, and I am the president of the California Business Roundtable, which supports a coalition of organizations concerned about the state's energy policy regarding electricity, natural gas and fuels called Californians for Affordable and Reliable Energy. This group is a broad-based collection of small businesses, community groups, local officials, local business organizations, statewide associations, and energy consumers that formed in response to the issues first raised in the Little Hoover Commission report "Rewiring California." Our mission is to educate policy-makers and opinion leaders on the need for an energy plan that accomplishes our climate change goals while balancing against the unintended consequences, particularly in our underserved communities and on our jobs climate.

Let me be crystal clear. Our goal today is to respectfully submit recommendations on future energy policy decisions, our coalition goal is NOT advocating to repeal or undermine the intent of AB 32. We respect Governor Brown's efforts to lead California to an energy future that is based on reducing greenhouse emissions through renewable resources. As our policies lead the nation and the world, we are focused on working with the Governor and his Administration to ensure that the state's environmental goals are also in balance with economic goals, particularly in those regions of the state still struggling to recover from the economic downturn.

Accordingly, our first recommendation is that this Commission review the conflicting state statutes governing energy policy and push for better coordination and alignment.

There are many different state agencies that are responsible for the implementation and oversight of various programs, but no one is in charge of over-seeing the entire picture. That means that businesses and consumers are being hit from all sides as numerous mandates and changes take effect simultaneously. The current policy structure is inefficient and a comprehensive energy plan that takes a larger look at this problem will help to correct that - which will help economy and help achieve our state's climate goals. In fact, our coalition stands ready to help rectify the problem you outlined in your "*Rewiring California"* report:

> "Despite assembling an ambitious agenda that has gained the world's attention, the state has failed to develop a comprehensive, energy strategy with clearly delineated priorities to ensure that policies are not working at cross-purposes and that California achieves its environmental stewardship goals."

Ultimately, environmental progress and climate change progress depend on a well-planned transition so that we also ensure economic progress and job growth. The CARE coalition requests that the Little Hoover Commission review the overall structure of current energy governance and inter-agency interaction. For example, the Governor's Office of Business and Economic Development (Go-Biz) should be added to the current inter-agency structure to provide additional information on the economic impacts of future policies and serve as an entry point for businesses to provide feedback about how policies are impacting businesses either positively or negatively.

We also request the Commission to carefully evaluate current policies such as the Low Carbon Fuel Standard, proposed legislation such as a 51% Renewable Portfolio Standard and the expansion of the Cap and Trade program to determine whether these programs will provide the outcomes that the state identified in AB 32. Equally important, the Little Hoover Commission should constructively consider whether state energy and environmental policies will enhance the state economy or establish a confusing and contradictory policy platform that impacts future growth and investment.

<u>That leads to our second recommendation – that the Commission consider the cumulative impacts of current and future energy policies.</u>

Last year, the CARE Coalition commissioned Navigant Consulting to take a closer look at the cost drivers of three specific policies that are reshaping energy in California – the Renewable Portfolio Standard, Cap and Trade, and the Low Carbon Fuel Standard. The Navigant report noted that there are certainly increased costs ahead, but there is also a significant degree of uncertainty about the true outcomes and effects of implementation. The report states:

> "There is not a single, credible source of analytics and data that can inform companies and policymakers regarding the cumulative costs of recent energy-related policies and regulations. However, energy costs in California are increasing over the next several years. This is due to several factors, not the least of which are the costs of implementing a series of state-adopted policies and regulations that have been passed by the legislature and various state regulatory agencies in the last five to seven years. It is essential that total costs including the costs to specific energy consumers of the current policies and regulations are determined and understood."

<u>Our third recommendation is that the Commission review the extent to which current policies are having unexpected cost increases on fuel, natural gas, and electricity.</u>

For many ratepayers these cost increases come on top of higher water costs and will disproportionately impact underserved communities as well as business. The California Energy Commission has projected electricity rates will increase between 26 to 42 percent by 2020. And on the fuels side, the Boston Consulting Group has projected fuel costs to rise between $0.49 and $1.83 per gallon by 2020 due to the effects of Cap and Trade and LCFS.

The community impacts are real and include increased costs for city and county vehicle fleets, heating and cooling costs for schools, electricity costs at water treatment facilities, and costs for providing other essential public services. These rising energy costs disproportionately impact low income and minority communities. According to the American Coalition for Clean Coal Electricity, energy costs have nearly doubled as a fraction of annual family budgets since 2001. In particular, lower and middle income families are spending more than one fifth of their household incomes on energy. This portion is now comparable to other major categories including housing, food, and health care. Furthermore, the unequal distribution of household incomes means that energy cost impacts disproportionately hit hardest on minority and senior populations. In contrast, families with after tax incomes over $53,000 spend only 11 percent or less of their budget on energy.

As costs rise, low-income families are not only hit with higher bills, but they also face potential job losses and lost economic investment in their communities.

For business, energy cost and reliability challenges threaten jobs and California's economic competitiveness. According to Navigant, "The price of California energy and electricity across all sectors combined (residential, commercial, industrial, and transportation) is notably higher than comparable prices in the neighboring states of Arizona, Nevada, Oregon, and Washington as well as the U.S. average." This competitive price gap will continue to grow larger, which impacts business, job creation and local communities.

These projected cost increases are significant, and must be understood clearly and planned for carefully. There are negative unintended consequences of this that could lead to a weaker and less competitive California economy. Our state is already struggling with a weaker recovery than some of our competitors, and we don't want to make that problem worse.

We believe the Governor is taking this issue seriously. Our coalition supports the Little Hoover Commission's recommendations for an energy policy "time-out" in order to get a better handle on how cumulative or over-lapping costs can be minimized before laying on additional mandates or more extensive programs.

Again, this is not about repealing any environmental laws; instead it is about bringing balance to energy planning moving forward and making sure the state is prioritizing the affordability, reliability and adequacy of our energy supplies.

The Little Hoover Commission can play a critical role analyzing the laws that impact energy, developing recommendations to reconcile environmental, energy and economic growth policies, investigating the impact of future policies on communities in the state and providing guidance for the Legislature in developing new policies.

In closing, we recommend that the Commission provide the Governor and the Legislature with recommendations for the development of a state energy plan.

As the Commission found during its 2012 review, California has a variety of programs, mandates, and strategies. But we do not have one comprehensive plan to make sense of it all. The Integrated Energy Policy Report and the Energy Action Plan are pieces of the puzzle, but do not meet the full need. Creating such a plan is not a novel concept. The National Association of State Energy Officials issued a report in July 2013 that reviewed the state energy plans of 38 states and the District of Columbia. They also noted that several states were in progress of updating their plans or developing new ones. NASEO argued:

> "State energy plans aid American businesses in achieving and maintaining a global competitive advantage and capture broader societal, environmental, and economic benefits that contribute to energy affordability. State energy plans provide an assessment of current and future energy supply and demand, examine existing energy policies, and identify emerging energy challenges and opportunities. In short, energy plans guide states toward energy resiliency and improved economic prosperity."

We can learn from some of the best practices in these other states. And that is why we have Navigant Consulting working with us to better understand what is working and not working in other states. In fact, the most common objectives of these plans across the country included:

- Increase use of domestic energy resources;
- Promote economic growth;
- Ensure reliable, low-cost energy supply;
- Gain competitive advantage over rising energy costs; and
- Position the state as a leader in the United States and world energy markets.

Those are all good objectives and we believe the Little Hoover Commission should review California's polices to determine if California has the same balance in the state's energy policy that other states are attempting to achieve.

And we can learn from other countries as well. In recent years, the European Union has implemented extensive mandates, a cap and trade program, and renewable subsidies. According to the Manhattan Institute:

> "As a result of these policy differences, electricity prices in Europe now are far higher than those in the United States, for both residential and industrial consumers. Between 2005 and late 2013, the average price of residential electricity in the EU rose by 55 percent, and industrial electric rates jumped by 26 percent. The average U.S. household now pays 12 cents per kilowatt-hour—about a third of what the same amount of electricity costs in Germany. European steelmakers now pay twice as much for their electricity as do U.S. manufacturers."

The concern is that for its higher costs, the EU does not appear to have received the benefit of higher carbon-emissions reductions. The report cautions that California is going down the same path as Europe, and says this is a case study in what NOT to do.

It is for these reasons we are supporting Assemblymember Perea's legislation that will result in the development of comprehensive state energy plan and urge the Little Hoover Commission to engage with the Governor and the Legislature as this important policy discussion moves forward.

Assemblymember Perea's bill, AB 1763, creates the process for a state energy plan for that promotes economic growth, ensures reliable and affordable energy supplies, and positions the state as a leader in the United States and world energy markets.

We believe that ultimately a plan should include the following principles:

- Prioritize the creation of an affordable and reliable state energy supply to protect consumers and support jobs and the economy;
- Develop state policies that promote compliance flexibility, which are technology neutral, and that recognize regional differences to minimize energy cost increases and reliability impacts;
- Provide a rigorous and transparent assessment of the costs, risks and trade-offs of current state policies that could impede the efficient, affordable, and reliable delivery of energy;
- Identify limits on the costs that should be borne by energy consumers and businesses to achieve important societal goals or mandates;
- Conduct a rigorous analysis to identify and prevent duplication or inconsistencies between existing and new state policies to avoid energy cost increases and reliability risks;
- Adopt realistic paths and timelines for regulatory compliance to achieve energy-related state goals to minimize stranded assets and maximize regulatory certainty;
- Strengthen oversight and regularly adjust state policies to avoid energy cost overruns or reliability impacts, and;
- Develop additional programs to encourage robust public participation, education, and support regarding the costs and benefits of energy and environmental policies.

To balance the needs of underserved communities, our economy and our environment, we believe a state energy plan is the foundation we need for the future policies that will build a strong California economy and make the state's environmental policies successful.

I would be happy to answer the Commission's questions.

Thank you for your time and consideration.